

## Message Text

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ACTION EB-08

INFO OCT-01 AF-10 EUR-12 ISO-00 AID-05 CIAE-00 COME-00  
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02  
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 IGA-02  
INT-05 AGRE-00 /103 W  
-----290823Z 045656 /12

R 290730Z APR 77  
FM AMEMBASSY KINSHASA  
TO SECSTATE WASHDC 3325  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 4067

DEPT PASS COMMERCE, EXIM, TREASURY

E.O. 11652: GDS 12/31/83  
TAGS: EFIN, CG  
SUBJECT: NEED FOR ADDITIONAL DEBT RESCHEDULING

REF: (A) KINSHASA 3595, (B) KINSHASA 2160, (C) KINSHASA 3003

1. SUMMARY: THE ZAIRIAN GOVERNMENT HAS FAILED TO MAKE IMPORTANT INTEREST PAYMENTS ON 1977 MATURITIES DUE TO PUBLIC CREDITORS AND HAS INDICATED ITS INTENTION TO SEEK ADDITIONAL DEBT RELIEF. ZAIRE'S SEVERE FOREIGN EXCHANGE CONSTRAINTS AND THE UNEXPECTED AND AS YET UNTOLD COSTS OF THE SHABA INVASION MAKE A GOOD CASE FOR RESCHEDULING ALL FIRST SEMESTER INTEREST AND PRINCIPAL PAYMENTS THAT MAY BE IN ARREARS AT THE TIME OF THE NEXT PARIS CLUB MEETING. ZAIRE'S ECONOMIC PROSPECTS, HOWEVER, COULD BRIGHTEN CONSIDERABLY DURING THE SECOND SEMESTER DUE TO GREATLY INCREASED COFFEE RECEIPTS, POSSIBLE NEW CREDITS AND THE LIKELY WINDING DOWN  
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OF THE SHABA CONFLICT. FOR THE SECOND SEMESTER OF 1977 WE SHOULD REVERT TO THE TERMS OF THE SECOND SEMESTER 1976 RESCHEDULING, I.E. 85 PER CENT OF ALL PRINCIPAL MATURITIES. WE SHOULD LINK OUR RESCHEDULING TO THE GOZ'S PERFORMANCE IN IMPLEMENTING THE IMF STABILIZATION PROGRAM AND SHOULD PERSUADE PRIVATE BANKERS TO DO THEIR SHARE, EITHER THROUGH PROMPT IMPLEMENTATION OF THE LONDON AGREEMENT OR THROUGH OTHER REFINANCING SCHEMES. WHILE WE SHOULD

DEFER A FINAL DETERMINATION ON 1978 RESCHEDULING FOR FURTHER REVIEW LATER THIS YEAR, WE SHOULD VOICE OUR EXPECTATION THAT NEW CREDITS, INCREASED EXPORT EARNINGS AND ECONOMIC REFORM SHOULD MAKE RESCHEDULING UNNECESSARY IN 1978. END SUMMARY.

2. THUS FAR, THE ZAIRIAN GOVERNMENT HAS FAILED TO MAKE IMPORTANT INTEREST PAYMENTS ON ITS 1977 MATURITIES, INCLUDING SEVERAL IMPORTANT PAYMENTS DUE TO OR GUARANTEED BY EXIM. CENTRAL BANK GOVERNOR SAMBWA HAS CONFIRMED THAT HE WILL HAVE GREAT DIFFICULTY IN MAKING THESE PAYMENTS SOON AND HAS CONFIRMED PREVIOUS HINTS (REF A) THAT THE ZAIRIAN GOVERNMENT PLANS TO SEEK ADDITIONAL DEBT RELIEF BEYOND THE TERMS OFFERED BY THE PARIS CLUB ON SECOND SEMESTER 1976 MATURITIES.

3. THE ZAIRIAN CASE FOR ADDITIONAL RESCHEDULING RESTS ON THE SHABA INVASION, THE FACT THAT THE PRESENT IMF STABILIZATION MEASURES ARE IMPOSING SEVERE STRAINS ON THE ECONOMY, AND THAT IT IS NOT IN THE INTERESTS OF CREDITORS TO EXTRACT A POUND OF FLESH NOW AT THE RISK OF JEOPARDIZING ZAIRE'S ECONOMIC RECOVERY AND CAPACITY TO REPAY LATER. OUR OWN ANALYSES EARLIER IN THE YEAR (REFS B AND C) CONFIRMED THE ACUTE NATURE OF ZAIRE'S FINANCIAL PROBLEMS AND FORECAST FINANCIAL GAPS THAT, IF NOT BRIDGED, WOULD RESULT IN NEGATIVE REAL PER CAPITA ECONOMIC GROWTH FOR THE THIRD STRAIGHT YEAR. THE SHABA INVASION, WHICH APART FROM ITS DIRECT COSTS HAS DELAYED IMPLEMENTATION OF THE LONDON AGREEMENT, MADE THE ALREADY BLEAK FORECAST LOOK EVEN WORSE.

4. PROBLEMS IN REGULARIZING FIRST SEMESTER 1977 DEBT SERVICE OBLIGATIONS ARE UNDERMINING ZAIRE'S CAPACITY TO PURSUE DEVELOPMENT  
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PROJECTS THAT WOULD HELP GENERATE THE REVENUES NEEDED TO PAY OFF FUTURE DEBT SERVICE OBLIGATIONS. FOR EXAMPLE, IN THE CASE OF CIS THE GOZ'S FAILURE TO MAKE INTEREST PAYMENTS TO EXIM IS JEOPARDIZING FURTHER DISBURSEMENTS OF EXIM FUNDS, WHICH IN TURN INCREASES THE POSSIBILITY THAT WORK ON THE LINE WILL BE SUSPENDED. SUCH A SUSPENSION WOULD SERIOUSLY IMPAIR ZAIRE'S ABILITY TO PAY OFF ITS DEBT BY BRINGING INTO PRODUCTION NEW MINERAL RESOURCES IN SHABA PROVINCE.

5. WE THINK, THEREFORE, THAT AN EARLY REGULARIZATION OF ZAIRE'S FIRST SEMESTER 1977 MATURITIES IS IN ORDER AND SUGGEST A COMPLETE RESCHEDULING OF ALL ARREARAGES EXISTING AT THE TIME OF THE NEXT PARIS CLUB MEETING, ASSUMING THAT THE MEETING TAKES PLACE IN THE FIRST SEMESTER OF 1977, AND ALL OF THE FEW INTEREST AND PRINCIPAL PAYMENTS FOR THE REMAINDER OF THE FIRST SEMESTER OF 1977. SUCH A POSTURE SEEMS TO US TO BE A REASONABLE WAY OF AVOIDING THE DILEMMA OUTLINED ABOVE AND COULD BE CONSIDERED A FORTHCOMING POSITION THAT WOULD RESPOND TO THE ZAIRIAN GOVERNMENT'S CALL FOR MORE ASSISTANCE AND ENCOURAGE PRIVATE

BANKERS TO BE FORTHCOMING AS WELL. ACCORDING TO SKETCHY DATA AVAILABLE HERE, WE ESTIMATE THAT SUCH A PROPOSAL WOULD MEAN APPROXIMATELY \$45 MILLION IN ADDITIONAL RELIEF OVER THAT WHICH WOULD OBTAIN IF SECOND SEMESTER 1976 TERMS WERE EXTENDED TO THE FIRST SEMESTER OF 1977.

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C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 4067

DEPT PASS COMMERCE, EXIM, TREASURY

6. THE CASE FOR ADDITIONAL RESCHEDULING OF SECOND SEMESTER 1977 MATURITIES IS LESS COMPELLING. FIRST, PRESENT DIPLOMATIC AND MILITARY TRENDS SUGGEST THAT THE SHABA INVASION MAY BY THEN BE A LESS SIGNIFICANT IMPEDIMENT TO ZAIRE'S ECONOMIC RECOVERY. FOR THE MOMENT, IT APPEARS WE CAN SET ASIDE WORST CASE FEARS OF A CONFLICT THAT MIGHT INTERRUPT THE PRODUCTION OF THE COPPER BELT. THE COSTS OF MAINTAINING A PROTECTIVE MILITARY PRESENCE IN SHABA AND OF REDRESSING SOME OF THE ECONOMIC PROBLEMS OF THE NEGLECTED REGIONS THAT FELL UNDER KATANGAN CONTROL WILL REMAIN. BUT IT SPEARS LIKELY THAT THE STABILIZATION OF THE CONFLICT SHOULD EASE PRIVATE BANKERS' EFFORTS TO RAISE THE \$250 MILLION IN NEW CREDITS ENVISIONED UNDER THE LONDON AGREEMENT. IF PROPER ENCOURAGEMENT WERE FORTHCOMING FROM THE USG, IT MIGHT EVEN BE POSSIBLE TO SEE SOME OF THESE FUNDS DISBURSED BEFORE THE END OF 1977.

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7. THE SECOND FACTOR CLOUDING THE CASE FOR ADDITIONAL RESCHEDULING FOR THE SECOND SEMESTER OF 1977 IS THE POSSIBILITY OF SIGNIFICANT NEW AID. BOTH SAUDI ARABIA AND IRAN HAVE REPORTEDLY GIVEN SIGNS OF THEIR INTEREST IN PROVIDING ASSISTANCE TO ZAIRE. IF THESE REPORTS TURN OUT TO HAVE SUBSTANCE, SUCH ASSISTANCE COULD ALSO EASE ZAIRE'S FINANCIAL PROBLEMS IN THE SECOND SEMESTER OF 1977.

8. THE MOST SIGNIFICANT FACTOR MITIGATING AGAINST INCREASED RESCHEDULING IS THE PROSPECT OF SUBSTANTIALLY INCREASED RECEIPTS FROM COFFEE. OUR PREVIOUS BALANCE OF PAYMENTS ESTIMATES (REFS B AND C) HAVE BEEN BASED ON THE RATHER CONSERVATIVE PRICE OF ONE DOLLAR PER POUND WHICH TRANSLATED INTO ANNUAL COFFEE EXPORT EARNINGS OF AROUND \$176 MILLION. IN THE PAST, OFFICIAL REVENUES FROM COFFEE HAVE BEEN RESTRAINED BY INADEQUATE INTERNAL TRANSPORTATION, POOR INTERNAL MARKETING ARRANGEMENTS, POOR GRADING AND QUALITY CONTROL, SMUGGLING, AND OTHER FRAUDULENT EXPORT PRACTICES. THE BANK OF ZAIRE HAS INSTITUTED NEW TARGET PRICE SYSTEMS, EXPORT TAXES, AND MARKETING ARRANGEMENTS DESIGNED TO ASSURE THAT OFFICIAL COFFEE RECEIPTS MORE CLOSELY REFLECT THE OPPORTUNITIES PRESENTED BY CURRENT WORLD COFFEE PRICES. IF THESE MEASURES ARE SUCCESSFUL AND IF PRICES HOLD, ZAIRE'S FOREIGN EXCHANGE EARNINGS FROM AN ESTIMATED 80,000 TON COFFEE CROP COULD REACH \$600-700 MILLION -- ON A PAR WITH ESTIMATED COPPER EARNINGS. ACTUALLY, COFFEE EARNINGS AT SUCH A LEVEL WOULD BRING EVEN GREATER NET BENEFITS TO THE ZAIRIAN ECONOMY THAN AN EQUIVALENT LEVEL OF COPPER EARNINGS SINCE COFFEE PRODUCTION, UNLIKE COPPER, REQUIRES VERY FEW IMPORTED INPUTS.

9. WE WOULD BE THE FIRST TO POINT OUT THAT A DRAMATIC IMPROVEMENT IN ZAIRE'S FINANCIAL PROSPECTS IN THE SECOND SEMESTER OF 1977 IS FAR FROM CERTAIN. THE SHABA OR OTHER CONFLICTS MAY CONTINUE, THE PRIVATE CREDITS AND OPEC OIL MONEY MAY FALL THROUGH, AND ZAIRE MAY FAIL TO REFORM ITS COFFEE EXPORT INDUSTRY. BECAUSE OF THESE UNCERTAINTIES, WE FEEL IT WISE TO OFFER RESCHEDULING OF SECOND SEMESTER 1977 MATURITIES ON THE SAME TERMS AS THOSE OFFERED ON SECOND SEMESTER 1976 MATURITIES, I.E. 85 PER CENT OF

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ALL PRINCIPAL PAYMENTS FALLING DUE. SUCH AN APPROACH WOULD APPEAR TO LIE FIRMLY IN MIDDLE GROUND AND WOULD BE CONSISTENT WITH THE 1976 JUNE AD REFERENDUM AGREEMENT. AT THE SAME TIME, IT WOULD AVOID GIVING THE ZAIRIANS TOO MUCH RELIEF AT A TIME WHEN THEIR FINANCIAL PROBLEMS MIGHT BE EASING CONSIDERABLY.

10. RESCHEDULING SHOULD BE TIED TO THE GOVERNMENT OF ZAIRE'S PERFORMANCE IN IMPLEMENTING THE IMF STABILIZATION PROGRAM. WE SUGGEST ANOTHER PARIS CLUB MEETING IN LATE 1977 TO REVIEW THE GOZ'S PERFORMANCE AND TO ASSESS BALANCE OF PAYMENTS PROSPECTS FOR 1978. WHILE DEFERRING A FINAL DETERMINATION ON 1978 RESCHEDULING FOR FURTHER REVIEW, WE SHOULD VOICE OUR EXPECTATION THAT NEW CREDITS, INCREASED EXPORT EARNINGS, AND INCREASED EFFICIENCY FROM ECONOMIC REFORM SHOULD MAKE RESCHEDULING UNNECESSARY IN 1978.

11. WE SHOULD ALSO WORK TO GET INSERTED IN THE PARIS CLUB AGREEMENT A STATEMENT THAT CLUB MEMBERS EXPECT PRIVATE CREDITORS TO DO THEIR SHARE IN HELPING ZAIRE OVERCOME ITS FINANCIAL DIFFICULTIES. IT SHOULD BE POINTED OUT THAT ALTHOUGH THE JUNE 1976 PARIS CLUB AD REFERENDUM AGREEMENT CALLED FOR THE ZAIRIAN GOVERNMENT TO OFFER ESSENTIALLY SIMILAR TERMS TO PRIVATE CREDITORS, IN FACT THE PRIVATE CREDITORS INSISTED ON AND GOT PREFERENTIAL TREATMENT. WHILE WE DO NOT OBJECT TO THE TERMS OF THE LONDON AGREEMENT PER SE, WE SHOULD MAKE CLEAR THAT WE DO NOT INTEND TO IMPLEMENT PUBLIC RESCHEDULING JUST SO THAT THE GOZ CAN PAY OFF ITS PRIVATE CREDITORS. RATHER WE EXPECT PRIVATE CREDITORS TO DO THEIR SHARE, EITHER BY PROMPT IMPLEMENTATION OF THE LONDON AGREEMENT OR BY THE INSTITUTION OF OTHER FINANCIAL ARRANGEMENTS TO ASSIST ZAIRE.

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